

Payroll Tax Cut Will Help Workers and Will Have No Effect on Social Security

As a way to generate jobs and help America's working families, the President agreed to a 2 percentage point reduction in the payroll tax rate next year as part of the tax agreement. The payroll tax cut will benefit more than 155 million workers – and will help generate growth and put people back to work. **And, this tax cut will not affect Social Security.**

The President believes that Social Security is a sacred compact that in return for a lifetime of hard work, America's seniors will have a chance to retire with dignity. We have an obligation to keep that promise and safeguard and strengthen Social Security for seniors, people with disabilities and all Americans, both now and in the future.

- ***Social Security Chief Actuary on the Payroll Tax Cut:*** “We have reviewed the language Title VI Sec 601. Temporary Employee Payroll Tax Cut included in the Senate Amendment to House Amendment to Senate Amendment of H.R. 4853 (MAT10785). **We estimate that the enactment of this provision would have a negligible effect on the financial status of the Old Age and Survivors Insurance and Disability Insurance (OASDI) program in both the near term and the long term.** We estimate that the projected level of the OASI and DI Trust Funds would be unaffected by enactment of this provision.” (Letter to Secretary Geithner and Director Lew, 12/10/2010, emphasis added)
- ***John Rother, AARP Executive Vice President:*** “**It is obvious that the proposal has no financial impact on Social Security because the trust fund is made whole...So there is no dollar or cents impact...** Everyone involved is quite clear that this is a temporary payroll tax holiday and given the deficit and the politics I have no doubt that that will be true. That in other words **we will go back to the traditional way of contributing to Social Security once this period is finished.**”

- **The law specifies that Social Security will receive every dollar it would have gotten even without the payroll tax cut.** The legislation is absolutely clear on this point. In Section 601(e), the legislation states:

“There are hereby appropriated to the Federal Old-Age and Survivors Trust Fund and the Federal Disability Insurance Trust Fund [the Social Security Trust Fund] established under section 201 of the Social Security Act (42 U.S.C. 401) amounts equal to the reduction in revenues to the Treasury by reason of the application of subsection (a) [the payroll tax cut].”

This is a legal way of saying that Social Security will receive exactly what it would have received absent the enactment of this provision.

- **No change in Social Security solvency or benefits.** Since the Social Security Trust Fund will be paid back for every dollar lost because of the payroll tax cut, it will not affect the solvency of Social Security. Benefits will also remain exactly the same as they were before. Workers will get full credit toward future benefits for their work in 2011.

- **A smaller payroll tax cut was passed earlier this year with strong support, including from progressive supporters of Social Security.** The HIRE Act cut Social Security payroll taxes for employers hiring unemployed workers and used a similar legal mechanism to transfer funds to prevent any worsening of Social Security solvency. It was supported by 211 Democrats in the House and 57 Democrats in the Senate *and it will expire as scheduled at the end of this year.*
- **Numerous progressives have supported a payroll tax cut in the past.** Recent supporters of different versions of payroll tax cuts include Arianna Huffington, Ezra Klein, John Podesta, and Laura Tyson.
- **The tax cut is temporary.** This is a one-year, temporary tax break intended to help working families in these tough economic times and to help generate growth and jobs. After the temporary provision expires, payroll tax rates will return to what they were before. It would require an act of Congress signed by the President to change this automatic expiration.